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1st Session

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110–71

ECONOMIC DEVELOPMENTS IN AGING

A REPORT

OF THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

MAY 23, 2007.—Ordered to be printed

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LETTER OF TRANSMITTAL

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC, 2007.

Hon. DICK CHENEY,
President, U.S. Senate,
Washington, DC.

DEAR MR. PRESIDENT: Under authority of Senate Resolution 50 agreed to February 16, 2005, I am submitting to you a report of the U.S. Senate Special Committee on Aging entitled: Economic Developments in Aging.

Senate Resolution 4, the Committee Systems Reorganization Amendments of 1977, authorizes the Special Committee on Aging "to conduct a continuing study of any and all matters pertaining to problems and opportunities of older people, including but not limited to, problems and opportunities of maintaining health, of assuring adequate income, of finding employment, of engaging in productive and rewarding activity, of securing proper housing and, when necessary, of obtaining care and assistance." Senate Resolution 4 also requires that the results of these studies and recommendation be reported to the Senate annually.

This report, written by Senator Gordon Smith's staff while he was Chairman during the 109th Congress, describes the Committee's work over the past 10 years on the economics of retirement.

On behalf of the members of the Committee and its staff, I am pleased to transmit this report to you.

Sincerely,

HERB KOHL, *Chairman*

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ECONOMIC DEVELOPMENTS IN AGING

MAY 23, 2007.—Ordered to be printed

Mr. KOHL, from the Special Committee on Aging, submitted the following

R E P O R T

ECONOMIC DEVELOPMENTS IN AGING

America is in the midst of a significant demographic shift with the aging of the population. The first of the Baby Boomers turned age 60 in 2006. And in a few short years, a huge wave of Americans will begin to retire. Between 2010 and 2030, the number of people age 65 and older is projected to increase by 76 percent. By 2050, just over one in every five persons, or 20.6 percent, of the total U.S. population will be age 65 and older.

America's changing demographic profile will impact a wide range of social and economic issues. For example, the aging population may result in labor shortages in future years—which could hurt both the competitiveness of many American businesses and the nation's economic growth as a whole. Furthermore, there also is a concern with the "brain drain" that may occur. The U.S. workforce will be losing some of its most experienced workers—many of whom have skills that simply are not replaceable.

The aging of America's population is placing significant strains on the senior entitlement programs of Social Security, Medicare and Medicaid.

Under current law, entitlement program benefits will grow much more rapidly than revenues because of the increase in the number of retirees versus workers. For example, in 1950, there were about 16 workers for every Social Security recipient. Today this ratio has fallen to about three workers per retiree. By 2030, there will only be two workers for every retiree receiving benefits. The Social Security system simply cannot be sustained in its current form with a two to one ratio.

In addition, federal spending on entitlement programs will increase considerably over the next few years. In 2004, Social Security and Medicare spending accounted for about six percent of gross domestic product. By 2030, it is projected to increase to about nine percent.

To keep pace with the growing aging population, strengthening entitlement programs is necessary to ensure the sustainability of the programs. However, it is critical that Congress does so in a thoughtful manner that preserves benefits for those in need.

The Senate Special Committee on Aging (referred to as the "Committee" hereinafter) has a long history of leading the Senate in investigating and debating issues of importance to America's aging population. The Committee has initiated discussions on ways to strengthen Medicare, Medicaid and public/private retirement programs and to expose companies that prey upon seniors using marketing scams. This report will focus on the work of the Committee on the subject of the economics of retirement.

The report compiles relevant high-level summaries of Committee hearings over the past 10 years. These summaries demonstrate the ongoing debate within Congress as to the best approach to take for reform.

The report is broken into the following categories: The Challenges of the Retiring Baby Boomers and Global Aging, Social Security, Retirement Planning, Pensions/Retirement Savings and Older Workers.

THE CHALLENGES OF THE RETIRING BABY BOOMERS AND GLOBAL AGING

Global Aging: Opportunity or Threat for the U.S. Economy?
Chairman Larry Craig; Ranking Member John Breaux
February 27, 2003
Serial No. 108–4

This hearing explored the impact of global aging on the U.S. economy. Alan Greenspan, Chairman of the Federal Reserve System, testified that the world's population is growing older because of both a declining fertility rate and increasing life expectancy. These trends manifest themselves in two important ways: a more slowly growing population and labor force and an increase in the ratio of the elderly to the working-age population. Mr. Greenspan concluded that the aging of the population is bound to bring with it many changes to the economy. However, although the challenges may seem great, the necessary adjustments likely will be smaller than those required in most other developed countries. He stated further that the U.S. economy is uniquely well suited to make the necessary adjustments.

Sylvester Schieber, Vice President of Watson Wyatt Worldwide, also concluded that the U.S. is in a better position to weather the aging of its population than virtually any other country in the developed world. He stated that the U.S. should remain an attractive market for investment for much further into the global aging phenomenon than most other developed countries and should continue to see foreign flows of capital into the economy.

Paul Hewitt, the Program Director of the Global Aging Initiative at the Center for Strategic and International Studies (CSIS), reported on the CSIS Commission on Global Aging's findings. He stated that the commission's central finding was that the challenge posed by global aging is pervasive. Global aging will generate important economic opportunities, but also will create unprecedented dangers. And whether opportunities or dangers prevail depends on the course of policy reform over the next few years, both in the U.S. and abroad.

Gary Geipel, Vice President of the Hudson Institute, presented a four-part equation for understanding the impact of global aging in the workforce. He first discussed the challenges in general of global aging for the workforce. The second and third parts of the equation were factors specific to countries that either exacerbate or mitigate the more general challenges and the policy levers that are available to help ease some of the workforce challenges. The final piece of the equation was the wild cards that could either worsen or better the situation. For example, the problem of global aging could disappear due to exponential breakthroughs in medical care, such that age 65 becomes middle age with life spans extending beyond age 100.

Retiring Baby Boomers: Meeting the Challenges
Chairman Charles E. Grassley; Ranking Member John Breaux
March 6, 1997
Serial No. 105–2

This hearing outlined the challenge of maintaining the financial stability and retirement options for the large impending population of retirees. Projections have shown that resources will run out in the coming 30 to 40 years. Therefore, plans need to be made, by both individuals and the federal government, to make sure retirees will be compensated and cared for as they retire. Short term funding is available and will suffice to meet the needs of current retirees, but by the time the Baby Boomers begin to retire, changes will be needed to provide future generations with financial security and health care in retirement.

Several solutions were proposed during the hearing, including an increase in national savings, tax reform and better public education about the issue. Additionally, witnesses proposed changes in capital gain taxes, as well as adoption of a consumption tax, as a means to alleviate the burden of maintaining financial independence in retirement. Baby Boomers were encouraged to do all they could to help themselves through retirement. Witnesses advised future generations to save money and warned of the risk of relying on Social Security if they were in a higher income bracket as they inevitably would garner less of a safety net provided by Social Security. The hearing concluded with witnesses urging Americans to take responsibility for their own retirement funding issues and not to rely solely on the government, which would not be able to offer the expected amount of support to the large Baby Boom generation.

SOCIAL SECURITY

Exploring the Economics of Retirement
Chairman Gordon H. Smith; Ranking Member Herb Kohl
March 15, 2005
Serial No. 109–3

The purpose of this hearing was to continue a bipartisan dialogue on the Social Security system. Chairman Alan Greenspan addressed the Committee because of his unique and valuable experience as both the current Chairman of the Board of Governors of the Federal Reserve System and the Chairman of the National Commission on Social Security Reform from 1981 to 1983. During that period, the last major reforms of the Social Security system were enacted. Mr. Greenspan discussed the issue of Social Security in the context of the need for national savings in order to prepare for the aggregate economic demands of a rapidly aging population.

Mr. Greenspan discussed the issues of population aging and retirement. He concluded that a thorough review of the nation's commitments is urgently needed—and the necessary adjustments will become ever more difficult and larger the longer they are delayed. He stated further that reforms will involve making tradeoffs among valued alternatives and in doing so, Congress must consider not only the distributional effects of policy changes but also the broader economic effects on labor supply, retirement behavior and national saving.

Social Security: Do We Have To Act Now?
Chairman Gordon H. Smith; Ranking Member Herb Kohl
February 3, 2005
Serial No. 109–2

The purpose of this hearing was to examine the long-range financial problems of Social Security and the various means by which they can be resolved to assure greater retirement security for generations to come.

The Social Security system faces significant long-range financial deficits. The Social Security trustees' report, released in March 2004, projected that the trust fund will exhaust their balances in 2042. At that point, day-to-day tax receipts would presumably cover only 73 percent of promised benefits. By 2078, they would cover only 68 percent. Under current law, as long as the trust fund has a balance recorded to them, the benefits must be paid with whatever cash the Treasury has on hand. Technically, once the trust fund is exhausted, only Social Security tax receipts still coming in then could be used to provide benefits.

In addition, at the time of the hearing, Social Security tax receipts from the public—now in excess of the program's expenditures—were projected to fall below expenditures beginning in 2018, and under the trustees' projections, the shortfall would grow indefinitely. At the point when tax receipts fall below expenditures, trust fund balances and the interest thereon would have to be drawn upon. The question this poses is where the Treasury would get that money.

Thus, while the trust fund appears to be healthy for nearly 40 years into the future, the stress the program may place on the Treasury could begin in 15 years or sooner if shrinking yearly surpluses starting in 2009 limit what is available to meet the other expenses of the government.

During this hearing, the witnesses, including Congress' own nonpartisan support agencies and groups prominently engaged in the public debate, addressed the solvency issue and the necessity and timing of congressional action.

Strengthening Social Security: What Can Personal Retirement Accounts Do For Low-Income Workers?
Chairman Larry Craig; Ranking Member John Breaux
June 15, 2004
Serial No. 108–37

The purpose of this hearing was to discuss how the addition of personal retirement accounts will impact low-income workers. The hearing's focus was on a Government Accountability Office (GAO) study on how selected Social Security reform proposals might affect the distribution of benefits and taxes.

The Social Security program's distributional effect reflects both program features and demographic patterns among its recipients. In addition to the benefit formula, disability benefits favor lower earners because disabled workers are more likely to be lower lifetime earners. In contrast, certain household patterns reduce the system's tilt toward lower earners—for example, when lower earners have high-earner spouses. The advantage for lower earners also is diminished by the fact that they may not live as long as high earners, and therefore, would get benefits for fewer years on average.

Proposals to alter the Social Security program would have different distributional effects depending on their design. Model 2 of President Bush's Commission to Strengthen Social Security proposed new individual accounts, certain benefit reductions for all beneficiaries, and certain benefit enhancements for selected low earners and survivors. According to GAO's simulations, the combined effect could result in lower earners receiving a greater relative share of all benefits than under the current system if all workers invest in the same portfolio.

Strengthening Social Security: What Can We Learn From Other Nations?
Chairman Larry Craig; Ranking Member John Breaux
May 18, 2004
Serial No. 108–35

This hearing discussed Social Security and what America can learn from other nations. Japan and Europe have larger aging populations compared to the United States. And many nations have undertaken, or are in the middle of enacting, reforms to secure the retirement income of retirees. The pace and approach to reform differs with each nation. Many of the largest industrialized economies generally have opted to increase taxes and cut benefits.

Several countries have decided to plan ahead by prefunding future Social Security payments and investing those funds in private sector securities to increase returns. In some countries, such as Canada, it has meant direct investment of the trust funds in private sector securities. In others, it has meant establishing personal investment accounts. About 30 countries have implemented some type of personal account system as a component of their mandatory retirement insurance program. In addition, many countries recently have passed legislation or are considering reforms that include personal accounts.

The first lesson learned from this hearing was that Social Security reforms are inevitable. As President Kennedy said in 1961, “The Social Security program plays an important part in providing for our families, children, and older persons in times of stress. But it cannot remain static. Changes in our populations, in our working habits, and in our standard of living require constant revision.” Secondly, it is important to act sooner rather than later in beginning to implement reforms. The experience of other countries shows us that strengthening the Social Security program takes a long time. Thirdly, if personal accounts are established as part of a plan to strengthen Social Security, it is important to keep administrative costs in check. Some countries, such as the United Kingdom and Chile, have experienced relatively high costs in administering accounts, whereas Sweden’s process appears to have been more successful in limiting administrative costs. Finally, the developed and developing worlds must work together to engage this challenge constructively.

Social Security: Whose Trust Will Be Broken?
Chairman Larry Craig; Ranking Member John Breaux
July 29, 2003
Serial No. 108–18

This hearing focused on the future of Social Security. Over the long term, as the Baby Boom generation retires, Social Security’s financing shortfall presents a major program solvency and sustainability challenge. Waiting for Social Security to reach an immediate solvency crisis will reduce greatly the number of options, leaving less achievable choices as the end result. Taking prompt action will diminish the likelihood that Congress will have to choose between imposing severe budget cuts, benefit cuts or potentially jeopardizing future generations’ retirement.

In 2008, the first Baby Boomers will become eligible for Social Security benefits, and the future costs of serving them are already becoming a factor in the Congressional Budget Office’s 10-year estimation. The difference between program tax income and the cost of paying scheduled benefits will begin a permanent decline in 2009. To finance the same level of federal spending as in the previous year, additional revenues and/or increased borrowing will be in order. By 2018, Social Security’s tax income is projected to be insufficient to pay currently scheduled benefits. The shift from positive to negative cash flow will place an increased amount of pressure on the federal budget to raise the resources necessary to meet the program’s ongoing costs.

During the hearing, GAO also discussed the results of its analysis of an illustrative “Trust Fund Exhaustion” scenario. Under this scenario, benefits are reduced proportionately for all beneficiaries by the shortfall in revenues occurring upon exhaustion of the combined Old-Age and Survivors Insurance and Disability Insurance Trust Funds. GAO’s analysis illustrated trade-offs between achieving sustainable solvency and maintaining benefit adequacy.

It also dramatically demonstrated the need for action sooner rather than later.

Analyzing Social Security: GAO Weighs the President's Commission's Proposals
Chairman Larry Craig; Ranking Member John Breaux
January 15, 2003
Serial No. 108–1

This hearing, which was chaired by Ranking Member Breaux, was held to hear about the findings of a GAO study on the nations' Social Security program and how to address the challenges to ensure the long-term viability of the system. David Walker, Comptroller General of GAO, presented the agency's findings. Mr. Walker highlighted a number of important points in connection with the Social Security challenge:

- Social Security reform is part of a broader fiscal and economic challenge.
- Focusing on trust fund solvency alone is not sufficient; the program needs to be put on a path toward sustainable solvency.
- Solving Social Security's long-term financing problem is more important and complex than simply making the numbers add up.
- Given the current projected financial shortfall of the program, it is important to compare proposals to at least two funded benchmarks one that funds currently scheduled benefits and one that adjusts to current tax financing.
- Reform proposals should be evaluated as packages.
- Acting sooner rather than later helps to ease the difficulty of change.

Straight Shooting on Social Security: The Trade-Offs of Reform
Chairman John Breaux; Ranking Member Larry Craig
December 10, 2001
Serial No. 107–16

The purpose of this hearing was to provide Congress and the American public with a framework in which to consider Social Security reform. The hearing examined some of the proposals contained within the Presidential Social Security Commission recommendations. It also provided a realistic and nonpartisan reminder of the very serious problems that are facing Social Security and a substantive examination of the cost and tradeoffs that are associated with real reform.

Dan Crippen, Director of the Congressional Budget Office, reviewed the demographic challenges facing Social Security. The Baby Boom generation is about to retire and between 2010 and 2020 will almost double the number of people in Social Security and other retirement programs. At the same time, the workforce will grow less than 10 percent, resulting in the current three workers per retiree to drop to two. Mr. Crippen also analyzed the problem in terms of the budget. Over the time period of 2010 and 2030, Social Security, Medicare and Medicaid will make up at least two-thirds of the budget. That means that these programs will go from consuming about seven percent of gross domestic product to 15 percent.

Barbara Bovbjerg, Director of Education, Workforce and Income Security Issues at the General Accountability Office (GAO), helped clarify some of the key issues Congress and the public will face in considering options for Social Security reform. She discussed the nature and timing of Social Security's long-term solvency problem, GAO's framework for evaluating reform proposals and findings from their recent report on Social Security's role in securing income adequacy.

Geoffrey Kollman, a specialist on social legislation at the Congressional Research Service, discussed why America should act now rather than later. Some of his reasons included the fact that our society is permanently aging, due not only to the size of the Baby Boom generation, but the fact that people are living longer and the number of workers supporting them is going to decline. Another reason why it is crucial to act now is that the burden on government goes well beyond Social Security.

Income Taxes: The Solution to the Social Security and Medicare Crisis?
Chairman Charles E. Grassley; Ranking Member John Breaux
March 27, 2000
Serial No. 106–25

This hearing focused on the use of income taxes to fund Social Security and Medicare. The Congressional Budget Office estimated that over the next decade the non-Social Security surplus would total more than $1.8 trillion. Witnesses pointed out that while the surplus seems an obvious place to look for funds for Social Security and Medicare, it is not "free money." These funds come from taxing the income of Americans, a departure from the original designs for funding Social Security. Payroll taxes have been the primary source for previous funding, and this hearing evaluated the costs and benefits of increasingly relying on income taxes to fund Social Security and Medicare.

Alan Greenspan, Chairman of the Federal Reserve System, testified that the growing number of retirees in relation to workers renders the pay-as-you-go Social Security program unsustainable in the long run. Mr. Greenspan advocated for increasing the total amount of goods and services produced by the nation's economy. The best way to do this is by diverting resources that would have gone directly into savings to the production of new capital assets, which would cumulatively produce an even greater quantity of goods and services to be consumed later. Therefore, it is necessary to increase America's national savings to reform Social Security. Mr. Greenspan and several other witnesses agreed with the Administration's proposal to wall off the bulk of the unified budget surplus to boost saving, raise the productive capital stock and thus help provide the wherewithal to meet future obligations. Additionally, witnesses stated that transferring moneys from the on-budget to the off-budget Social Security accounts is more feasible than transferring general revenues from the on-budget accounts to the Social Security trust fund.

The hearing concluded with witnesses explaining that any general revenue transfer should not be made perpetual in nature, but should help finance the transition to a more balanced and sustainable system, or should support a program related to private pensions or a well-designed retirement savings program.

The Impact of Social Security Reform on Women
Chairman Charles E. Grassley; Ranking Member John Breaux
June 1, 1999
Serial No. 106–8

This hearing examined the impact of Social Security reform on women. Many women have unique problems in dealing with Social Security. There are several factors that contribute to gender inequity in the Social Security system and this hearing sought to address these inequities.

Witnesses outlined the fact that women are most dependent on a healthy Social Security system. Within the poorest 20 percent of the elderly, half depend on Social Security entirely, and women are much more likely to be in this group. Due to the fact that other sources of income are not as readily available to women, such as pensions, which are directly tied to earnings, or asset incomes, which are uncommon amongst the female population, women rely much more on Social Security. The protection Social Security offers from inflation, as well as a progressive benefit formula that pays a higher percentage to lower earners, makes Social Security an essential resource for many women.

The hearing recommended that any scaling back of benefit schedules be done progressively so that those with higher earnings would face higher benefit reductions. A change to auxiliary benefits also was proposed that would benefit women by requiring a minimum benefit for surviving spouses equal to 75 percent of the total benefit the deceased spouse and survivor would have received. This would be necessary to consider since women live longer than men on average. It ultimately was concluded that women are a vulnerable group amongst the elderly, and all proposals for Social Security reform need to be evaluated specifically on how they may affect the needs of this demographic.

Social Security Reform: Is More Money the Answer?
Chairman Charles E. Grassley; Ranking Member John Breaux
March 1, 1999
Serial No. 106–2

This hearing was held to compare and contrast the options for sustaining the Social Security entitlement program. With the dramatic increase of beneficiaries as the Baby Boom generation retires, funding for the program must be increased to address the new levels of benefits being provided. However, the means to do this are subject to much debate.

The hearing first examined a proposal by President Clinton that involved saving the federal budget surplus by paying down the public debt, raising national savings and investment in economic growth. Other witnesses argued that the best solution would be to slow benefits without altering payroll taxes or subsidizing the system with general revenues. Still other witnesses advocated increasing taxes and using general revenues to strengthen Social Security. Ultimately, it was concluded that a combination of several solutions would be necessary to address this multifaceted problem.

Women and Social Security Reform: Are Individual Accounts The Answer?
Chairman Charles E. Grassley; Ranking Member John Breaux
February 22, 1999
Serial No. 106–1

This hearing addressed the benefits women derive from the current Social Security program and the benefits women would realize under a system would include an individual account component.

As witnesses pointed out, there are specific concerns unique to women that arise under individual accounts, such as investment behavior, the impact of divorce and the longer life span of women. Witnesses outlined the positive and negative impacts of individual retirement accounts for women, some viewing them as very beneficial to women, while other witnesses found individual accounts to have severe drawbacks for women. Ultimately, it was concluded that women's investment decisions in 401(k) plans are similar to those of men with similar work histories. As such, shifting Social Security to a system of individual accounts should not be rejected because of concerns about the quality of women's investment decisions. Also, in making the decision whether to adopt mandatory individual accounts as a central component of Social Security in the 21st century, Congress must consider how such a fundamental change in social policy will affect various economic and demographic groups.

The hearing concluded that it is important to recognize that most gender-related concerns associated with individual retirement accounts can be addressed by various government restrictions or requirements concerning distributions, subsidies and investment options. If mandatory individual accounts are adopted, Congress must decide whether the advantages of such restrictions outweigh the distortions that they introduce into the new system of retirement income provisions.

The Stock Market and Social Security: The Risks and the Rewards
Chairman Charles E. Grassley; Ranking Member John Breaux
April 22, 1998
Serial No. 105–20

This hearing focused on the role the stock market should have in the Social Security program. The witnesses examined the questions of who should invest, the government or the individual; how much should be invested; and whether individual or government investments are cost effective.

The idea of investing all or part of the Social Security trust fund revenue in private markets and/or the implications of investing trust fund money in the stock market is one of the most debated elements of Social Security reform. The definition of Social Security trust funds is an accounting device used by the government in order to keep track of the money coming in and the money going out. Investing trust fund revenue in the stock market is a move toward prefunding some of the retirement income promises that have been made to the country's retired workers, disabled workers, dependents and survivors. However, witnesses stressed that stock market investing is only one option to increase the trust fund's revenue; but by itself, it is not the solution to Social Security's financing problem. Higher investment returns could extend Social Security's long-range solvency somewhat, but their effectiveness is limited as long as the program remains a largely pay-as-you-go system, under which each current working generation pays for the benefits of the retired generation. Also, in exchange for the prospect of higher returns, the Social Security trust fund would have to take on greater risk. This risk/return trade-off would apply not only to the individual account proposals, but would apply to each worker individually rather than to all workers collectively.

The second panel of witnesses offered a different perspective on the matter of individual accounts. Witnesses warned that participants with low account balances would be paying the same dollar amount in administrative expenses as people with high account balances. Witnesses also expressed concern for people who report wages on an irregular basis, like seasonal employees. Ultimately, the hearing concluded that individual retirement accounts linked to Social Security, patterned after the Federal retirement plan known as the Thrift Savings Plan, could be a viable component of retirement saving.

Preparing for the Retirement of the Baby Boom Generation
Chairman Charles E. Grassley; Ranking Member John Breaux
February 18, 1998
Serial No. 105–16

This hearing addressed the future concerns of retirement for the Baby Boom generation, primarily focusing on Medicare and Social Security. Witnesses testified that the future solvency of the system depends on many factors, one of the most important being the impending retirement of approximately 77 million U.S. citizens of the Baby Boom generation. The retirement of this generation represents an explosion of people into a program, which is already taxed to provide promised services. When the Baby Boomers begin to retire, the Medicare Part A Trust Fund will become insolvent. Social Security is in a similar situation. Although there currently are more taxes and revenues being taken in than benefits paid out, it was estimated at the time of the hearing that Social Security will reach insolvency by the year 2029 if it continues on its current trajectory.

The hearing went on to outline recent changes enacted to prepare Medicare for the 21st century. President Clinton worked with Congress to enact a major reform of the Medicare program. The Balanced Budget Act extended the life of the trust fund another decade to 2010 and modernized the program through more efficient payment methodologies and new health plan choices for beneficiaries. The hearing concluded with witnesses highlighting other important changes that were created from the Balanced Budget Act, including providing new choices for beneficiaries, better information for beneficiaries, expanding preventative benefits, reforming the way health plans and providers are paid and adding new tools and new funding to combat fraud and abuse in the Social Security and Medicare programs.

A Starting Point for Reform: Identifying the Goals of Social Security
Chairman Charles E. Grassley; Ranking Member John Breaux
February 10, 1998

Serial No. 105–15

This hearing addressed the sustainability of the Social Security system. Witnesses pointed out that while the Social Security and Medicare trust funds currently take in more than is paid out and large reserves are being accumulated, the reserves would be exhausted in 2029 if no changes are made to the program. Many retirees rely on Social Security for the majority of their retirement income and without it, they would face hardships. In fact, one in four retirees depends on Social Security for at least 90 percent of their income. The main goal of this hearing was to identify the objectives that different groups want to achieve through Social Security reform.

Witnesses proposed several solutions to enhance the well-being of tomorrow's retirees. First, Social Security reform should come sooner rather than later. Secondly, reform must be pursued on a bipartisan basis; both Republicans and Democrats should come together to find a solid solution. Thirdly, the government should not invest the Social Security funds, but rather move toward a system of personal retirement accounts. Witnesses pointed out that there will be economic growth if any new system encourages greater savings. Finally, the hearing stressed that the government needs to develop a new system that maintains an appropriate social safety net. Workers should be protected in case of disability, and both minor children and surviving spouses should be provided for in the event of a worker's death with a basic minimum benefit guaranteed.

2010 and Beyond: Preparing Social Security for the Baby Boomers
Chairman Charles E. Grassley; Ranking Member John Breaux
August 26, 1997
Serial No: 105–11

This hearing focused on the uncertainty of Social Security's sustainability and the impact that uncertainty will have on the Baby Boom generation and others to follow. Americans of all ages are filled with anxiety about their retirement years and a plan to sustain Social Security for the Baby Boomers and future generations is essential.

Witnesses estimated that Social Security will be completely bankrupt by the year 2031. Further, they asserted that waiting until the Baby Boomers start to retire to make improvements will be too late. Solutions proposed include an increase in the payroll tax, reduction of benefits or a combination of both. Though witnesses disagreed on the exact approach necessary, all agreed that early enactment of changes would allow changes to be phased in gradually, allowing for advanced notice to workers and beneficiaries so they could effectively adjust their plans for retirement.

RETIREMENT PLANNING

Managing Retirement Assets: Ensuring Seniors Don't Outlive Their Savings
Chairman Gordon H. Smith; Ranking Member Herb Kohl
June 21, 2006
Serial No. 109–25

During this hearing, the Committee examined the challenges seniors face in managing their assets during retirement. For example, Americans are living longer on average, and therefore, need to stretch their retirement dollars over a longer period of time than in the past. Seniors also should be concerned that inflation could erode the purchasing power of their income, investments may yield returns that are less than expected or decline in value, and large unplanned expenses, such as those to cover health care or long-term care, may occur at some point during retirement.

The hearing focused on how to manage a nest egg to provide a lifelong income stream. The Committee also examined the impact certain trends have had on retirement income, such as the shift to individual responsibility for both accumulating savings and drawing down retirement benefits.

Bridging the Gender Gap: Eliminating Retirement Income Disparity for Women
Chairman Gordon H. Smith; Ranking Member Herb Kohl
March 15, 2006
Serial No. 109–19

The purpose of this hearing was to examine the unique struggles women face in preparing for a financially secure retirement. The hearing focused on the gap in retirement income between men and women, why women face greater financial risk than men, and ways to assist women in planning for retirement.

Over their lifetimes, men and women differ in many ways that have consequences for their retirement income. For example, many women spend significant periods of time out of the work force raising children or taking care of elderly parents. Women also are more likely than men to work part-time and generally earn less than men.

These differences impact what men and women receive from both Social Security and pensions, as well as what they are able to accumulate through personal savings. The result is that women generally have less retirement income than men and tend to have much higher rates of poverty in old age. These trends are exacerbated by the fact that women generally live longer. The hearing took a closer look at this problem and witnesses offered potential solutions.

Retirement Planning: Do We Have a Crisis in America?
Chairman Larry Craig; Ranking Member John Breaux
January 27, 2004
Serial No. 108–27

This hearing examined whether the U.S. has a retirement planning crisis. Americans are living longer than ever; however, instead of increasing their retirement savings for a longer retirement, Americans are saving less than ever. A Commerce Department report showed that the personal saving rate actually had declined from 7.7 percent in 1992 to 2.3 percent in 2002. This decline raises the risk that many Americans may outlive their savings. This hearing provided members with an opportunity to understand the impact of the nation's declining personal savings rate and to examine ideas for addressing the decline.

Settling for Silver in the Golden Years: The Special Challenges of Women in Retirement Planning and Security
Chairman John Breaux; Ranking Member Larry Craig
May 23, 2002
Serial No. 107–26

This hearing focused on the unique challenges women face in preparing for a secure retirement. Although both men and women face difficulties in navigating the challenges of retirement planning, for women the retirement income stool is significantly more wobbly. In all three legs of the retirement income stool, Social Security, employer-provided retirement plans and personal savings, women lag behind men. For example, in Social Security, even though women account for 60 percent of the programs' beneficiaries and tend to live seven years longer in retirement than men, women receive only about 75 percent as much in Social Security benefits.

This hearing examined why women tend to have less retirement income than men. One of the reasons includes the fact that women are more likely than men to work part-time and in industries where retirement benefits are less common. The hearing also highlighted strategies and resources that women and their families can turn to for help. For example, the Women's Institute for a Secure Retirement highlighted their community education program to help women prepare for the future, POWERCenter. POWERCenter's primary goal is to educate the maximum number of women with information that can assist in retirement planning, and provide average and low-income women with the opportunity to take the first step toward controlling their financial futures.

Learning to Save: Innovations in the Pursuit of Income Security
Chairman Charles E. Grassley; Ranking Member John Breaux
June 17, 1999
Serial No. 106–10

This hearing was both a follow-up event to the 1998 SAVER summit and a way to highlight initiatives in the public and private sector that educate people about retirement savings and financial planning. The SAVER summit was held as part of the Savings Are Vital to Everyone's Retirement ("SAVER") Act of 1997. This legislation mapped out three areas where the government needs to focus its energy to help American's achieve a secure retirement: motivating individuals to take steps to secure their own retirements, assisting small employers to better understand the pension coverage options available and preparing those especially at risk in retirement planning, such as women and minorities.

The hearing highlighted what is being done specifically to help women, minorities and youth plan for retirement. A steadily growing number depend on defined contribution plans that require more individual decision-making. Therefore, witnesses concluded that more education is necessary to help those who are unaware of their financial planning options. Nearly all of the witnesses expressed the importance of using all available media outlets to educate people about personal retirement saving. The witnesses also stressed the importance of educating people about the importance of saving early for retirement, educating people about the actual costs of retirement, encouraging the use of payroll deductions for saving, developing financial planning curriculum for high schools/colleges and providing simple, user-friendly information on retirement savings. The hearing concluded by examining the roadblocks facing small businesses that would like to offer a pension plan, but are unable to do so due to uncertain revenues, large numbers of temporary or part-time employees, employees that prefer higher wages, and the costs to set up/administer/contribute to pension plans. Several solutions were offered to overcome these hurdles, including the implementation of business tax credits to offset startup costs of pension plans.

Preparing Americans for Retirement: The Roadblocks to Increased Savings
Chairman Charles E. Grassley; Ranking Member John Breaux
June 2, 1998
Serial No. 105–25

This hearing focused on the problems Americans will have saving for their future. Promises of benefits to retirees are under fire from a number of different directions. In fact, if Congress does not act soon Social Security benefits for many people may not be paid out at the same level as they are today.

Witnesses testified that a primary roadblock to increased savings is the lack of knowledge people have about saving. For example, workers with pensions are not aware of the structure of their benefits and borrow from their 401(k) plans without realizing the consequences. Participants in 401(k) plans need to take responsibility for understanding how their plans work and how to determine the optimal level of contributions to these plans.

The hearing proposed several ideas to increase savings. Retirement plan accounts should not be used as glorified savings accounts, and there should be no withdrawals allowed from retirement accounts or Social Security until age 65 (unless a person is disabled). In addition, the encouragement of pension creation and protection of pensions is a necessary tool for saving. Congress should continue to examine ways to simplify pension regulation, which is a leading impediment to the start-up of new plans. Moreover, workers should not be permitted to take lump-sum distributions from pensions when they change jobs. Witnesses also suggested that Congress and the President work on increasing how much money people can put away tax-free, especially the self-employed. Public education of finances also was stressed. Finally, witnesses suggested that there needs to be ways in which the portability of pension benefits would help workers avoid losing benefits when they switch jobs. Allowing more workers to contribute to their pensions from the very first day of a new job also would boost individual savings.

PENSIONS/RETIREMENT SAVINGS

The Role of Employer-Sponsored Retirement Plans
Chairman Gordon H. Smith; Ranking Member Herb Kohl
April 12, 2005
Serial No. 109–5

The purpose of this hearing was to examine savings in the context of employer-sponsored pensions and explore solutions to improve the system. The Committee heard from a number of witnesses, including an official from the Department of the Treasury, who discussed whether the current employer-sponsored pension system effectively increases national savings; how the system could be improved to increase savings; whether tax incentives are an effective way to increase savings; what the coverage rates in employer pension plans are today; and whether there are ways to increase such rates.

Retirement income has been referred to by many as a three legged stool: Social Security, employer-sponsored pensions and personal savings. Although there has been a tremendous amount of focus on the Social Security program, the other two legs of the retirement income stool are equally as important. Pensions are the second largest source of income among the elderly, after Social Security. Therefore, this hearing focused on ways to increase savings in employer-sponsored pensions.

America's Pensions: The Next Savings and Loan Crisis?
Chairman Larry Craig; Ranking Member John Breaux
October 14, 2003
Serial No. 108–24

The purpose of this hearing was to examine the long-term financing risks to the single-employer insurance program managed by the Pension Benefit Guaranty Corporation (PBGC) and the future of the defined benefit pension system. More than 34 million workers and retirees in 30,000 single-employer defined benefit pension plans rely on the PBGC's federal insurance program to protect their pension benefits. During fiscal year 2002, the PBGC's single-employer insurance program went from a surplus of $7.7 billion to a deficit of $3.6 billion, a loss of $11.2 billion in just one year. In addition, based on PBGC's latest unaudited financial report, the deficit had grown to $8.8 billion as of August 31, 2003.

The major reason for PBGC's single-employer pension insurance program's return to a deficit in 2002 was the termination, or expected termination, of several severely underfunded pension plans. Several underlying factors contributed to the severity of the plans' underfunded status, including a sharp decline in the stock market, which reduced plan asset values, and a general decline in interest rates, which increased the cost of terminating defined benefit pension plans. Witnesses discussed the implications of this financial reversal and what must be done to address it.

The Cash Balance Conundrum: How to Promote Pensions without Harming Participants
Chairman Charles E. Grassley; Ranking Member John Breaux
June 5, 2000
Serial No. 106–29

This hearing evaluated the benefit and drawbacks of different types of pension plans. Specifically, the purpose of the hearing was to determine which plans best promote worker's individual needs. In general, there are two types of retirement plans: defined benefit pension plans, which guarantee a certain monthly payment upon retirement; and defined contribution plans, which establish contributions for the employer and employee, but guarantee no specific payment at retirement.

However, employers recently have been converting their traditional pension plans to cash balance plans or other hybrid pension plans. These plans are more easily understandable from an employee perspective and more portable. Under a traditional defined benefit pension plan that bases benefits on final average pay, the value of your annuity spikes upward in the last few years on the job. Under cash balance and similar plans, there is no spike in value at the end of a career. This is because benefits tend to accrue at a more even pace.

This more constant rate of benefit accrual in a cash balance plan can be a disadvantage if you are in the middle or toward the end of your career. And many employees who have worked for years in a "back-loaded" plan and find out that their employer is converting to a more "front-loaded" plan are concerned. It is many of these workers who often are not in a good position to save more money in order to make up the difference between what they expected to receive from their old retirement plan and what they will get under their cash balance plan. Unless the plan provides transition benefits, some long-service employees can be harmed.

This hearing explored the controversy surrounding cash balance plans. With the trend away from defined benefit pension plans, the hearing also focused on ways to make pension plans more attractive to companies.

Shortchanged: Pension Miscalculations
Chairman Charles E. Grassley; Ranking Member John Breaux
June 16, 1997
Serial No. 105–6

This hearing discussed the prevalence of pension miscalculation and the reasons behind these miscalculations. The hearing examined who is at risk, the scope of the problem and how individuals could protect their pensions.

To address these issues, the PBGC did an estimate of error rate in the audit samples they conducted for terminated pension plans. The PBGC reported that the preliminary results from their latest audit cycle showed approximately 13.7 percent of almost 2,800 people were underpaid. The majority of these people were receiving lump sum distribution payments. The PBGC audit results also revealed that there is a disturbing increase in the number of people underpaid. Ten years ago, the number of pension plan participants underpaid was slightly over two percent; today it is 8.2 percent. Unfortunately, a high number of people are finding that what they were counting on for retirement simply is not there.

Witnesses urged employees to make an effort to fully understand their company's pension program. Witnesses also stressed the importance of being persistent when tracking possible mistakes in a pension plan. Legislative fixes were proposed to alleviate the problem, including a bill that would require employers to provide employees with a benefit statement at least once every three years, a departure from current law, which requires employers to provide a statement of benefits only when asked by the employee. It also was proposed that employers provide employees with all documents showing how their benefits were calculated. Lastly and most importantly, witnesses stressed the importance of people being accountable for their future and being proactive in understanding and protecting their benefits.

OLDER WORKERS

Living Stronger, Earning Longer: Redefining Retirement in the 21st Century Workplace
Chairman Gordon H. Smith; Ranking Member Herb Kohl
April 27, 2005
Serial No. 109–6

The purpose of this hearing, which was chaired by Ranking Member Kohl, was to examine U.S. demographic and labor force trends and the barriers seniors experience in extending their employment years. Demographically, society is getting older and, as a result, the labor force will need to work longer to maintain a high level of productivity and to support the nation economically.

Due to increased life expectancies in the U.S., many Americans plan to work later in life. Under some existing employment systems, such as defined benefit programs, employees are discouraged from working past the traditional retirement age and, in some instances, financially penalized for staying in the workforce longer. The hearing included discussions of best practices currently being implemented by businesses regarding employment of seniors, such as offering flexible work hours, eldercare and phased retirement programs.

Breaking the Silver Ceiling: A New Generation of Older Americans Redefining the New Rules of the Workplace
Chairman Larry Craig; Ranking Member John Breaux
September 20, 2004
Serial No. 108–43

The purpose of this hearing, which was chaired by Ranking Member Breaux, was to discuss how older Americans are breaking the silver ceiling in the nation's workplace. Since 1985, there has been an upturn in the number of older Americans who are choosing to work past age 65. However, over the past 50 years, both corporate and federal policies have encouraged workers to leave the workforce as early as possible. Social Security benefits allow people to retire as early as age 62, with normal retirement age at 65 years. Currently, 75 percent of Americans apply for Social Security benefits at age 62. In addition, companies have built their pension plans to favor early retirement and to encourage the hiring of younger workers.

A number of factors impact whether older Americans stay in the workforce longer, including inadequate retirement savings and cuts in retiree health benefits. In addition to these factors, it is important for the nation's economy for older workers to continue working. As Baby Boomers reach retirement age in the next few years, the economy will start to experience negative effects of mass retirements. There will be fewer younger workers to fill the mass vacancies of the older, experienced workers.

Therefore, it is critical to develop policies that encourage older Americans to remain in the workforce longer. Workplace flexibility is critical to this goal. For example, many older workers want to work part-time or on and off throughout the year. Phased retirement, i.e., leaving the workforce gradually, also is appealing to many older Americans.

Mandatory Retirements: Do They Still Make Sense?
Chairman Larry Craig; Ranking Member John Breaux
September 14, 2004
Serial No. 108–42

The purpose of this hearing was to reexamine the mandatory retirement age rules and determine whether they are still appropriate. A number of federal, state and local governments have mandatory retirement rules for public-safety related jobs with a physical and cognitive fitness requirement, such as state police and federal firefighters. These restrictions were introduced primarily to ensure public safety. However, because Americans are living longer and healthier lives, chronological age often is an inaccurate indicator of physical and cognitive age for many workers. Therefore, a number of experts argue that the current mandatory retirement age rules are outdated. During this hearing, members examined specific professions that are subject to federal mandatory retirement rules to better understand the dynamics of each profession and whether the rules still make sense.

Overcoming Obstacles and Crafting Opportunity for Older Workers
Chairman Larry Craig; Ranking Member John Breaux
September 3, 2003
Serial No. 108–20

The Committee held a Forum on Older Workers that was moderated by Barbara Bovbjerg, the Director of Education, Workforce and Income Security Issues at GAO. The forum focused on overcoming obstacles and creating job opportunities for older Americans.

According to GAO, the population that is 55 years or older is poised to grow dramatically. At the time of this hearing, this group was 21 percent of the population and it was estimated to be 29 percent in 2019. At the same time, however, labor force growth will slow from about 1.1 percent to 0.7 percent annually. Slower growth in the labor force and the resulting shortage of skilled workers has serious implications on the national economy and for retirement systems. Therefore, it is critical that our nation provides incentives for American workers to delay full retirement and for American employers to retain their older workers.

Hearing on Now Hiring: The Rising Demand for Older Workers
Chairman Charles E. Grassley; Ranking Member John Breaux
April 3, 2000
Serial No. 106–26

This hearing explored creative ways to provide incentives to employers and retirees to find appropriate jobs to supplement retirement income. As the labor pool begins to shrink and the Baby Boomers age and leave the workforce, more creative ways will be needed to entice them to stay in the work force. This hearing looked at several options, including more customized retirement arrangements and flexible scheduling.

The hearing examined legislative proposals including the Defined Benefit Revitalization Act (DBRA), which attempted to change the tax code to meet current labor market needs. Currently, if a person retires past the age of 59½ and has a defined benefit plan, they cannot access those funds, creating a disincentive to continue working. The DBRA would have maximized pension benefits while allowing workers to stay in the workforce. Witnesses also highlighted the benefits of phased retirement for both employers and employees, reiterating the need to include in phased retirement legislation protections for older workers to be able to remain in the workforce and not be penalized for earning a small income.

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